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Government Braces Banks, Sparks Stock Market Rally

After months of steadfastly denying that slower economic growth, stagnant real estate markets and slumping equity markets were putting financial institutions in a bind, the cabinet of Prime Minister Kiichi Miyazawa abruptly changed its tune in mid-August. In announcing a package of emergency measures designed to bolster bank balance sheets and promising further actions Finance Minister Tsutomu Hata sought to break the bear hug of negative sentiment that was gripping the stock market. With a sigh of relief investors responded positively to the government's new attitude by driving the Nikkei average of 225 first-section stocks on the Tokyo Stock Exchange up more than 16 percent in four days of trading. Market analysts still are not convinced that the market has found firm support among investors and are waiting to see whether the gain has stamina or whether it will repeat the pattern of this past June and July (see Graph).

Following a drop to just above the 15,000 mark in late July (see *JEI Report* No. 29B, July 31, 1992), the Nikkei average struggled upward to close at 15,983.64 August 5. Reports of poor corporate profits, however, drove the market down six days straight to close at 14,768.17 August 13, a 7.6 percent decline. After fighting back to nearly 15,000 over the next two days, the Nikkei plunged 620.14 points August 18 to close at 14,309.41, its lowest level in more than six years. Analysts began hypothesizing that the market easily could fall below 14,000 and that the bottom lay as low as 11,000.

Japanese banks are caught between a rock and a hard place. Falling equity prices reduce the value of banks' stock portfolios (40 percent of which counts toward their overall capital base) just as

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1990	1991	January-June 1991	January-June 1992	April 1992	May 1992	June 1992
Japan's Balance of Payments							
Trade Balance	$63,528	$103,044	$44,081	$62,884*	$9,991*	$10,094*	$11,431*
Exports (f.o.b.)	280,374	306,557	146,968	159,129*	26,576*	24,816*	27,312*
Imports (f.o.b.)	216,846	203,513	102,887	96,245*	16,585*	14,722*	15,881*
Current Account Balance	35,761	72,901	28,924	56,180*	9,753*	9,486*	9,360*
Long-Term Capital (net)	-43,586	37,057	3,604	650*	-3,431*	-1,893*	-7,432*
Overall Balance	-7,234	76,369	-3,262	58,848	3,250	9,557	-492
International Reserves (end of period)	77,053	68,980	67,892	67,444	68,145	68,050	67,444
Japan's Customs Clearance Trade							
Trade Balance	52,149	77,789	32,177	49,046	7,192	7,854	8,985
Exports (f.o.b.)	286,948	314,526	150,330	163,315	27,248	25,495	28,128
Cars	41,348	44,713	21,450	24,286	3,962	3,389	3,797
Steel	12,509	13,612	6,645	6,341	1,018	1,102	1,114
Imports (c.i.f.)	234,799	236,737	118,152	114,269	20,056	17,641	19,143
Crude Oil	31,584	30,181	15,438	13,796	2,613	2,095	2,155
Manufactured Products	118,028	120,341	59,033	58,000	9,856	8,843	9,725
Japan-U.S. Trade							
Trade Balance	37,954	38,220	15,882	18,599	3,294	2,914	3,149
Exports (f.o.b.)	90,322	91,538	42,614	44,892	7,536	6,993	7,592
Imports (c.i.f.)	52,369	53,317	26,732	26,293	4,243	4,079	4,443
Yen-Dollar Exchange Rate (average for period)	Y144.79	Y134.71	Y136.08	Y129.36	Y133.57	Y130.57	Y126.81
U.S. Trade							
Trade Balance	-101,718	-65,399	-23,922	-28,679*	-5,705	-5,389	-6,479*
Exports (f.a.s.)	393,592	421,730	210,400	224,156*	37,173	36,696	39,174*
Imports (Customs)	495,311	487,129	234,322	252,835*	42,878	42,085	45,654*
U.S.-Japan Trade							
Trade Balance	-41,105	-43,385	-19,115	-21,859*	-4,210	-3,495	-3,385*
Exports (f.a.s.)	48,580	48,125	24,461	23,826*	3,566	3,666	4,164*
Imports (Customs)	89,684	91,511	43,577	45,685*	7,776	7,161	7,549*

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percent change from year-earlier period unless otherwise indicated)

	1990	1991	January-June 1991	January-June 1992	April 1992	May 1992	June 1992
Discount Rate (end of period)	6.0%	4.5%	6.0%	3.75%	3.75%	3.75%	3.75%
Outstanding Money Supply	11.7%	3.6%	4.9%	1.5%	1.6%	1.1%	0.9%
Industrial Production	4.6%	2.1%	4.5%	-5.4%	-6.1%	-8.8%	-3.7%
Manufacturing Operating Rate	2.3%	-1.4%	0.9%	-7.1%	-8.0%	-9.8%	-5.3%
Number of Bankruptcies	-10.6%	65.8%	60.2%	38.5%	48.2%	33.7%	31.2%
Residential Construction Starts	2.7%	-19.7%	-16.7%	-3.7%	0.4%	-0.1%	1.0%
Job Openings to Applications (ratio)	1.40	1.40	1.45	1.19	1.17	1.14	1.08
Nominal Wages	4.7%	3.7%	3.5%	3.1%	2.3%	2.5%	2.7%
Manufacturing Labor Productivity	4.2%	2.3%	5.3%*	-5.0%*	-5.3%	-6.5%	n.a.
Wholesale Prices	2.0%	0.2%	1.0%	-1.6%	-1.2%	-1.4%	-1.5%
Consumer Prices	3.1%	3.3%	3.6%	2.1%	2.4%	2.0%	2.3%
Yen-Based Export Prices	2.1%	-3.5%	-4.9%	-2.3%	-0.7%	-2.0%	-3.7%
Yen-Based Import Prices	8.6%	-7.9%	-3.4%	-10.1%	-6.4%	-6.3%	-7.4%

*Through May of each year only.

For Japan's latest GNP figures, see JEI Report No. 24B, June 26, 1992.